

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Tony Hammond, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Nanci E. Langley

Competitive Product Prices
Priority Mail International Regional Rate Boxes Contract 1
Negotiated Service Agreements

Docket No. MC2015-31

Competitive Product Prices
Priority Mail International Regional Rate Boxes Contract 1
(MC2015-31)
Negotiated Service Agreement

Docket No. CP2015-40

ORDER ADDING PRIORITY MAIL INTERNATIONAL REGIONAL RATE BOXES
CONTRACT 1 TO THE COMPETITIVE PRODUCT LIST

(Issued February 24, 2015)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as Priority Mail

International Regional Rate Boxes Contract 1 to the competitive product list.¹ For the reasons discussed below, the Commission approves the Request.

II. BACKGROUND

On February 4, 2015, in accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, the Postal Service filed the Request, along with supporting documents. In the Request, the Postal Service asserts that Priority Mail International Regional Rate Boxes Contract 1 is a competitive product that establishes rates “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. Among the supporting documents, the Postal Service included a copy of the Governors’ Decision authorizing the product, a contract related to the proposed new product, requested changes to the competitive product list, a statement supporting the Request, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that unredacted portions of the Governors’ Decision and the contract, customer-identifying information, and related financial information remain under seal. Request, Attachment 6.²

Priority Mail International Regional Rate Boxes Contract 1 offers prices for Priority Mail International Regional Rate Boxes to a customer who meets an annual minimum commitment of postage paid. Request, Attachment 4 at 3. Rates are dependent on country of destination and maximum box weight selected. There are

¹ Request of the United States Postal Service to Add Priority Mail International Regional Rate Boxes Contracts to the Competitive Products List, and Notice of Filing (Under Seal) of Contract and Application for Non-Public Treatment of Materials Filed Under Seal, February 4, 2015 (Request). In Order 2349, the Commission changed the product name by adding a numerical marker to avoid confusion should the Postal Service propose to create a similar product in the future. Notice and Order Concerning the Addition of Priority Mail International Regional Rate Boxes Contract 1 to the Competitive Product List, February 9, 2015 (Order No. 2349).

²In its application for non-public treatment of materials, the Postal Service asks the Commission to protect customer-identifying information from public disclosure for 10 years from the Notice filing date of February 4, 2015. *Id.* at 13.

eight country groups and three box types (designated A, B, and C) available, each with specified weight limits and dimensions. Request at 3-4; *id.* Attachment 4 at Annex 1.

The contract is intended to take effect when the Postal Service notifies the customer within 30 days of the date the Commission issues all necessary regulatory approval. It is set to expire one calendar year from its effective date, or the last day of the month that falls one calendar year from the effective date, whichever is later, unless, among other things, either party terminates the contract with 30 days' written notice to the other party or is renewed by mutual agreement. Request, Attachment 4 at 3.

On February 9, 2015, the Commission issued an order establishing the two dockets, appointing a Public Representative and providing interested persons with an opportunity to comment.³

III. COMMENTS

The Public Representative filed comments on February 19, 2015.⁴ No other interested person filed comments. The Public Representative concludes that Priority Mail International Regional Rate Boxes Contract 1 should be categorized as a competitive product and added to the competitive product list. In addition, based on the financial workpapers filed by the Postal Service, he believes that the contract is expected to generate sufficient revenues to cover costs and thereby satisfy the requirements of 39 U.S.C. § 3633(a).⁵

³ Order No. 2349, Notice and Order Concerning the Addition of Priority Mail International Regional Rate Boxes Contract 1 to the Competitive Product List, February 9, 2015.

⁴ Public Representative Comments on Postal Service Request to Add Priority Mail International Regional Rate Boxes Contract 1 to Competitive Product List, February 19, 2015 (PR Comments). The Public Representative also filed a motion for late acceptance of his comments. Motion of the Public Representative for Late Acceptance of Comments, February 19, 2015 (Motion). The Motion is granted.

⁵ PR Comments at 1.

IV. COMMISSION ANALYSIS

The Commission has reviewed the Request, the contract, the supporting data filed under seal, and the Public Representative's comments.

Product list requirements. The Commission's statutory responsibilities when evaluating the Request include assigning Priority Mail International Regional Rate Boxes Contract 1 to either the market dominant or competitive product list. See 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3020.34. Before adding a product to the competitive product list, the Commission must determine that the Postal Service does not exercise sufficient market power that it can effectively set the price of the product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. See 39 U.S.C. § 3642(b)(1). In addition, the Commission must consider the availability and nature of private sector enterprises engaged in delivering the product, the views of those who use the product, and the likely impact on small business concerns. See 39 U.S.C. § 3642(b)(3); 39 C.F.R. §§ 3020.32(f), (g), and (h).

The Postal Service asserts that it provides postal services of the kind provided under the contract in a highly competitive market, that other shippers who provide similar services constrain its bargaining position, and that it can therefore neither raise prices nor decrease service, quality, or output without risking the loss of business to competitors. Request at 5. The Postal Service states that the contract partner supports the Request, that expedited shipping is widely available from private firms, and that the Postal Service is unaware of any small business concerns that could offer comparable services to the contract partner. Request Attachment 1 at 5.

The Commission finds that the Postal Service does not exercise sufficient market power that it can effectively set the price of the proposed product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. The availability of other private sector providers supports this conclusion. The contract

partner and the Public Representative support the addition of the Priority Mail International Regional Rate Boxes Contract 1 product to the competitive product list. Further, there is no evidence of an adverse impact on small businesses. For these reasons, having considered the relevant statutory and regulatory requirements, the comments filed, and the Postal Service's supporting justification, the Commission finds that Priority Mail International Regional Rate Boxes Contract 1 is appropriately classified as competitive and is added to the competitive product list.

Cost considerations. Because the Commission finds Priority Mail International Regional Rate Boxes Contract 1 is a competitive product, the Postal Service must also show that the contract covers its attributable costs, does not cause market dominant products to subsidize competitive products as a whole, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by the contract exceeds its attributable costs, the contract is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if the contract covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

Based on a review of the record, the Commission finds that the rates should cover the contract's attributable costs. 39 U.S.C. § 3633(a)(2). The Commission also finds that the contract should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, the Commission finds the contract is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). See *also* 39 C.F.R. § 3015.7(c). Accordingly, a preliminary review of the contract indicates it is consistent with section 3633(a).

The Commission will review the contract's cost coverage and the contribution of competitive products as a whole to the Postal Service's institutional costs in the

Commission's Annual Compliance Determination to ensure that they continue to comply with 39 U.S.C. § 3633(a).

Baseline agreement. The Commission designates the contract that is the subject of this docket as the baseline agreement for the Priority Mail International Regional Rate Boxes Contract 1 product. Following current practice, in any future request to add a negotiated service agreement to the Priority Mail International Regional Rate Boxes Contract 1 product, the Postal Service shall identify all significant differences between the new negotiated service agreement and the baseline agreement. Significant differences include terms and conditions that impose new obligations or new requirements on any party to the negotiated service agreement. The docket referenced in the caption of the request should be Docket No. MC2015-31. In conformity with current practice, a redacted copy of Governors' Decision No. 11-6 should be included with the request.

Effective date/term. By the contract's terms, the Postal Service will notify the customer of the effective date of the contract within 30 days after the date that the Commission issues all necessary regulatory approvals. Request, Attachment 4 at 3. The contract is scheduled to terminate one calendar year from its effective date, or the last day of the month that falls one calendar year from the effective date, whichever is later, unless, among other things, either party terminates the contract with 30 days' written notice to the other party or is renewed by mutual agreement. *Id.*

Follow-up submissions. The Postal Service shall promptly notify the Commission of the effective date of the Contract. If the instant contract is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

In conclusion, the Commission approves Priority Mail International Regional Rate Boxes Contract 1 as a new product. The revision to the competitive product list appears below the signature of this Order and is effective immediately.

V. ORDERING PARAGRAPHS

It is ordered:

1. Priority Mail International Regional Rate Boxes Contract 1 (MC2015-31 and CP2015-40) is added to the competitive product list as a new product under Negotiated Service Agreements, International. Revisions to the competitive product list and the Mail Classification Schedule appear below the signature of this Order and are effective immediately.
2. The Postal Service shall promptly notify the Commission of the effective date of the contract. If the instant contract is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.
3. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Shoshana M. Grove
Secretary

CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix A to 39 C.F.R. part 3020, subpart A—Mail Classification Schedule. These changes reflect the Commission's order in Docket Nos. MC2015-31 and CP2015-40. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Part B—Competitive Products **2000 Competitive Product List**

Negotiated Service Agreements*

Outbound International*

Priority Mail International Regional Rate Boxes Contract 1

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products

2000 Competitive Product List

2510 Outbound International

2510.11 Priority Mail International Regional Rate Boxes (PMI RRB) Contracts

2510.11.1 Description

- a. Priority Mail International Regional Rate Boxes (PMI RRB) Contracts provide prices to a mailer for PMI RRB to certain destinations
- b. Preparation requirements are the same as for all PMI shipments with the following exceptions:
 - The mailer is required to use PC Postage from an authorized PC Postage vendor, or any other method authorized by the Postal Service under the mailer's PMI RRB contract, for payment of postage.
 - The mailer may be required to prepare specific shipments according to country specific requirements.
 - The mailer may be required to tender shipments through limited acceptance channels.
 - Mail preparation requirements for PMI RRB are similar to those required for a PMI Medium Flat Rate Box shipment, except that the mailer must use a Priority Mail Regional Rate Box A, B, or C with the specified markings, subject to size and weight limitations specific to PMI RRB that are set forth in the applicable PMI RRB Contract.
- c. The mailer must be capable of either tendering at least 5,000 pieces of international mail to the Postal Service, or paying at least \$100,000.00 in international postage to the Postal Service
- d. For a mailer to qualify, the contract must cover its attributable costs.

2510.11.2 Size and Weight Limitations

Priority Mail International Regional Rate Box¹

	<u>Length</u>	<u>Height</u>	<u>Thickness</u>	<u>Weight</u>
<u>Regional Rate Box A¹</u>	<u>Outside dimensions:</u> <u>Top Loaded: 10.125 x 7.125 x 5.0 inches</u> <u>Side Loaded: 13.0625 x 11.0625 x 2.5 inches</u>			<u>10 pounds</u>
<u>Regional Rate Box B¹</u>	<u>Outside dimensions:</u> <u>Top Loaded: 12.25 x 10.5 x 5.5 inches</u> <u>Side Loaded: 16.25 x 14.5 x 3 inches</u>			<u>20 pounds</u>
<u>Regional Rate Box C¹</u>	<u>Outside dimensions:</u> <u>Top Loaded: 15 x 12 x 12 inches:</u>			<u>20 pounds</u>

Notes

1. Notwithstanding any marking on the package for domestic service, size, and weight limitations.

2510.11.3 Minimum Volume or Revenue Requirements

The mailer must commit to varying minimum volumes or postage of PMI RRB on a quarterly or annualized basis.

2510.11.4 Price Categories

The incentives are based on the volume or revenue commitment above a specified cost floor.

The following price categories are available for the product specified in this section:

- PMI RRB

2510.11.5 Optional Features

Optional features are separately charged according to the published prices for each service at the time of mailing. The following additional postal services may be available in conjunction with the product specified in this section:

- Pickup On Demand Service

- International Ancillary Services (2615)
None

2510.11.6 Indemnity

Indemnity for ordinary, uninsured parcels is included in the price of postage for PMI RRB based on the weight of the item. The indemnity amount for PMI RRB is determined by the formula in UPU Parcel Post Regulations Article RC 154.3. This information is available in the Parcel Post Manual at www.upu.int. The formula, converted into U.S. equivalents of pounds and dollars, is shown in the International Mail Manual. It is updated annually to reflect the current SDR exchange rate.

2510.11.7 Prices

PMI RRB

Prices are subject to the terms and conditions of individual negotiated service agreements.

Pickup On Demand Service

See 2315.7

2510.11.8 Products Included in Group (Agreements)

Each product is followed by a list of agreements included within that product.

- Priority Mail International Regional Rate Boxes Contracts 1
Baseline Reference
Docket Nos. MC2015-31 and CP2015-40
PRC Order No. 2364, February 24, 2015
Included Agreements
CP2015-40, expires TBD